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UNCLAS SECTION 01 OF 02 NDJAMENA 000162

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DEPARTMENT FOR AF/C, EB, TREASURY FOR OTA

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SUBJECT: Petroleum in Chad: Business as Usual

REF: 07 NDJAMENA 419

¶1. (SBU) Summary: With the Government's full attention focused on security, representatives of the Esso (ExxonMobil)led Chad-Cameroon oil pipeline consortium, report "business as usual" in the petroleum sector with minimal friction with governmental authorities. Both Chinese and Taiwanese oil sector actors are back in Chad. The Consortium expects to pay some \$890 in taxes in 2008, the windfall result of higher-than-expected oil prices. However, with World Bank and IMF representatives still inexplicably absent, the World Bank-Government of Chad accord on use of oil revenues long-overdue for renegotiation, and budgetary controls suspended during the February-March State of Emergency, it is doubtful that the government is anywhere near meeting its commitment to spend 70 percent of revenues on priority sectors. End summary.

Minimal Impact on Petroleum Sector

¶2. (SBU) Esso Public Affairs manager Yolla Zongre met PolOff April 7 to discuss the impact of the recent insecurity on the petroleum sector. Zongre reported that President Deby is too focused on the continued unrest and rebel threat to "pick a fight" with Esso. As a result, it was "business as usual" at Esso. Petty harassment of Esso operations was at an all time low and the major remaining lawsuits were now being resolved - without the "typical" threats and intimidation by the GOC, he said. Zongre also said that Esso had paid the GOC approximately \$350 million in taxes on 25 March. According to Yolla, the \$350 million was paid directly into the State Treasury.

¶3. (SBU) In subsequent conversation with Exxon Mobile Business Services Manager Mike Upton on April 14, Upton explained that under existing agreements Esso makes four quarterly installments to the GoC which represent the estimated tax liability for the current year. These payments are due March 31, June 30, September 30, and December 31, 2008. In addition to these quarterly installments, Esso also pays the difference between the actual tax liability and payments from the previous year. He said "this is what Americans do on April 15th... We "true up" our taxes between what we owe and what we paid in the previous year." He continued by saying that for 2008, the quarterly installment is USD \$180 million. The "true

up" for 2007 was USD \$170 million -- thus the \$350 million in taxes that was paid on 25 March. He added that using this data, and looking ahead, the GOC can expect to receive approximately USD \$890 million in oil taxes in 2008 - the windfall a result of higher than expected oil prices in 2007.

¶4. (SBU) Zongre said that Esso will continue to operate and comply with the existing conventions. Esso has no plans to renegotiate (Ref A). However, in the same breath, Zongre said that Esso continues to work with the government's negotiating team (i.e. the National Coordinator, the Minister of Petroleum, the Director of the President's Civil Cabinet, and various Presidential Advisors) to discuss issues that are important to the GOC. These issues include: putting into place the "topping plant" in Kome which will provide Chad with refined oil - and re-examining some technical aspects of calculation of pipeline royalties. (Note: the "topping plant" is a part of the Kome production facility and will refine crude into diesel fuel that can be used in-country. End note).

ESSO Tripwire - Rebels pass Abeche

¶5. (SBU) Zongre said Esso security teams agreed that if the rebels were to pass or invade Abeche, Esso would evacuate its staff out of N'djamena. Most likely, the staff would go to its oil facilities in Kome. Zongre noted that Esso personnel had cut back

NDJAMENA 00000162 002 OF 002

their personnel in N'djamena and were operating on a skeleton staff. No Esso family members are allowed back. Zongre also said that during the February 2/3 events, Esso had lost 17 houses to violent looting. Most Esso employees are "doubling up" in villas.

Chinese Developments

¶6. (SBU) In reference to the Chinese returning to Chad, Zongre said that "the Chinese are back" and want to return to pre-crisis levels in Chad, including the oil company CNPC. He said China had already returned its engineers to complete previous infrastructure projects in/around N'djamena, including the rehabilitation of roads. Zongre said that Esso and the Chinese had recently signed an agreement for future evacuations - Esso has agreed to help the Chinese and Taiwanese oil workers to evacuate in case of another crisis. (Note: The Taiwanese are located mainly near the Kome oil plant; the Chinese in the Bongor area of Chad. End Note)

Comment

¶7. (SBU) With World Bank and IMF representatives still inexplicably absent, the World Bank-Government of Chad accord on use of oil revenues long-overdue for renegotiation, and budgetary controls suspended during the February-March State of Emergency, it is doubtful that the government is anywhere near meeting its commitment to spend 70 percent of revenues on priority sectors. Certainly in N'Djamena, the evidence points to increased spending on security, the most obvious signs being the massive defensive fortifications around the city and by the Presidential Palace.

Nigro